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QUESTIONS OFTEN ASKED ABOUT THE MESSAGE OF "TAX THE RICH"

The "Tax the Rich" book argues that the best way to reduce climate gas emissions and inequality in German in the 2020s is to accelerate the construction of renewable energy capacity through subsidies financed by increased taxes on the super-rich.

The book argues that subsidies amounting to some 2 percent of GDP will be required to cut German greenhouse gas emissions to zero by 2045 – as is the national ambition.

The subsidies will cover:
a) the construction of wind and solar capacity to provide enough renewable electricity,
b) the infrastructure (storage, net) needed for a stable supply of electricity,
c) the infrastructure (electric vehicles, heat pumps, electrolyzers, fuel cells) needed to replace fossil fuels with electricity in transport and heating,
and
d) – in the likely case that Germany will not build sufficient renewable capacity to reach its national goals –
the production of enough blue hydrogen (made from fossil gas where the carbon is split off, captured and stored underground using CCS) to cover any remaining need for industrial heating and heavy transport.

Notice that a), b), c) and d) are all more costly – as seen by the profit-seeking investor – than continued reliance on conventional coal, oil, and gas. Hence, a), b), c) and d) will not occur by themselves in a "free market". To happen at scale and speed they will require subsidies (supported by a ban on fossil fuels, or a very high carbon prices).

Notice that we assume that Germany will *not use nuclear energy* in the decades ahead. And that *electricity imports will only cover a small share* of German use of electricity. But Germany may well replace imports of fossil gas (from Norway and elsewhere) with imports of blue hydrogen (with carbon stored in Norway).

Here is the list of the questions we anticipate:

1. Who do you propose to tax?
The 10 % richest by income, and the 1 % richest by wealth.

2. How do you propose to increase taxes?
Through a higher corporate income tax (which is a tax on all owners, which in turn mainly belong to the 10 % richest) and wealth taxes and inheritance taxes on the 1 % richest

3. If Germany increases the corporate income tax, won't corporations flee the country?
Yes, some will. To reduce the exodus to tax havens, we propose international coordination – where all civilized countries increase the corporate income tax in parallel.

4. If Germany increases taxes on the superrich, won't they respond by fleeing the country?
Yes, some will. To reduce the exodus to tax havens we propose to copy the new legislation in Norway – which does not allow tax refuges to move back to Norway *ever* – unless they pay all the taxes they fled from.

5. If the rich leave the country, will it reduce the activity level in Germany?
In the current world economy, which is full of financial capital looking for profitable projects, it will not matter much if German owners move abroad. As long as a project is profitable and takes place in a safe environment it is likely to be funded – if not by domestic capitalists, by foreign.

If the project is not profitable, it won't be funded by profit-seeking capitalists – regardless of where they live and pay taxes. In order for non-profitable projects to proceed, the government must pay sufficient subsidies. Which Germany must do for renewable capacity – if the nation is to achieve its goal of zero emissions in 2045.

6. Is it necessary to subsidize renewable? Won't the cost of renewable energy decline by itself over the years to come?
It is true that the cost of wind and solar power will (continue to) decline through continued technological advance and learning. And that the lifetime cost of renewable energy will fall below the cost of gas power and heat (especially if one succeeds in raising carbon prices, reducing subsidies for coal, and maintaining OPEC+).
But it is not the lifetime cost of energy that determines customer behavior, it is acquisition cost. For example, subsidies are necessary to make people buy expensive electric cars although they save much more in the long run on cheaper "fuel". The same goes for windmills and solar panels, and blue hydrogen plants. The root cause is that the capital cost (7 – 15 % per year) required by profit seeking investors exceed is much higher than the sales/investment ratio for new renewable energy capacity.

7. Does the government need to subsidize? Can't the state simply finance and build the wind and solar farms, own and operate them, and pocket whatever profit arises?
Yes, they can. The main counterargument is the neoliberal ideological view that government should be as small as possible.

8. What happens to the willingness of the rich to invest in renewables if they have to pay higher taxes?
The willingness to invest will decline (along with the savings rate) all else equal. But as long as the tax increase is within reason, the reduction in real capacity formation and growth will be small (perhaps some tenths of percent in the current growth rate of some two percent per year).
The effect on measured growth will be even smaller if the increased taxes are used by the government to invest in physical infrastructure (like wind and solar farms, storage, etc). Which creates as much employment and demand for capital as what the owners would have demanded if they could control the taxes paid instead.

9. Aren't inheritance taxes unfair?
No, not in the eyes of the working majority.

10. Aren't income taxes on the rich already too high?
Yes, personal income taxes are already steeply progressive and relatively high for the top 80 % plus income bracket. But wealth taxes are not high and can generate much governmental income even is focused narrowly on the superrich (the 1 % richest).
Furthermore, the tax (28 %?) on corporate income can be increased – both by filling loop holes and by coordinated action by civilized nations.

11. Who gets the benefit of a governmental subsidy (on energy)?
The one who uses the cheaper energy generated by the subsidized plant.

12. Who exactly pays for a governmental subsidy?
a) A construction subsidy (lower construction (=investment) cost)
If the subsidy is financed as part of the government budget, the subsidy is paid for by the tax payer (and split among the income groups in the normal manner – meaning that the rich pay more than the poor).
But we propose that the subsidy should be paid by an earmarked tax on the superrich and the corporations. In that case the subsidy is paid for by the rich (the super-rich and the shareholders)

In the case of the US, the government gives a tax credit (a reduction in taxes paid) to the investor who builds the generating capacity. In that case it is the recipient of government services who pays the cost of the subsidy – because s/he will receive the lower level of governmental services that can be provided given the lower budget.

In the case of communal investment in a power plant, the government pays part of the investment and thereby lowers the future electricity bill for the communal owners. In that case the beneficiary is the future user of the electricity, and the source is the general tax payer.

b) A sales subsidy (higher future income from sales of electricity)
In the UK, the government gives the investors the right to charge higher energy prices in the future. In that case it is the future user of the electricity who pays the cost of the subsidy.

13. What will subsidies do to philanthropic giving (in the same area)
It will reduce the need for philanthropy. And it will reduce the capacity for philanthropic giving. As far as I can see the same amount. The same goes for point investing.

14. Can we trust the government?
Will the higher taxes on the rich be used to reduce climate gas emissions? We believe that if the German state promises to do so – through lawful decisions in the parliament – the answer is yes.

15. Is it really a subsidy if the government pays part of a windmill that has a lower lifetime cost of energy than a gas-powered utility?
No, not technically speaking. But it is the acquisition cost that determines customer behavior. For example, subsidies are necessary to make people buy expensive electric cars although they save much more in the long run on cheaper "fuel".

16. Do subsidies to renewable energy make Germany more sustainable?

Yes, in the sense that it reduces German emissions below what they would have otherwise been. But serious backup is required to make the energy supply stable against variation in the weather.

17. Do subsidies to renewable energy make Germany more resilient?
Harder to say. Probably yes. Because the power source is more spread out and hence more robust against sabotage and social breakdown.

Conclusion. Building a domestic renewable energy supply resembles building a domestic military defense capacity. Both cost more than doing nothing. Both give an uncertain advantage in a future disorderly world.